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# **Financial Globalisation and the Anglo-Saxon Model of Capitalism: an Agency-Centred Approach to Study Financial Change**

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## **Abstract**

This paper examines the main theoretical perspectives on the process of financial change in modern capitalism. It discusses institutionalist political economy approaches claiming that their conception of states, markets and financial innovation is problematic when analysing financial globalisation. In order to consider how the internationalisation of financial practices can be studied, this article suggests that a necessary step is that of firstly deconstructing the model of Anglo-Saxon capitalism as present in the literature. Whereas scholars have emphasised deregulation in the explanation of the development of financial practices, this essay emphasizes that in key respects their development in the Anglo-American core has been profoundly shaped by the actions and interests of state actors and at the end, it rests on a set of highly formalised set of institutions. This allows this paper to locate historically the peculiar American institutional roots of modern financial practices, focusing on the singularity of the social contexts in which practices emerge rather than studying finance solely in relation to the liberal nature of the state. After this, it proposes a theoretical framework to conceive the relationship between states and markets in international contexts from a historical agency-centred perspective.

**Keywords:** Political Economy of Finance, financialisation, neoliberal state, Anglo-Saxon countries.

## **Introduction**

The term financialisation has often been read with reference to “the increasing importance of financial markets, financial motives, financial institutions, and financial elites in the operation of the economy and its

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governing institutions, both at the national and international levels.”<sup>1</sup> While mainstream economics has supported the idea of the informational efficiency of financial markets<sup>2</sup> the institutionalist strand of Political Economy (PE) has emphasised the crisis-prone and exploitative nature of modern finance. This literature is an invaluable resource for exploring the expansion of finance in modern capitalism, in that scholars from this perspective have contributed to the understanding of financialisation by analysing its relationship with diverse forms of governance. More specifically, part of institutionalist PE contends that the turn of economic activities towards financial speculation represents the logical outcome of deregulated forms of capitalism. From this perspective, Anglo-Saxon countries represent the iconic model of speculative capitalism in which politics is said to have surrendered to the interests of creditors’ agendas and financial capital. However, this article claims that this literature by portraying Anglo-American states as submissive subjects of creditor plans ends up underestimating their agency in the development of financial speculation. To remedy this bias, the article problematises the idea that financialisation is the natural outcome of Anglo-Saxon forms of governance by taking a closer look at the development of speculative practices in the United States and their spread in the United Kingdom. This will be done by drawing upon recent rich historical contributions to the development of financial practices in the United States and the United Kingdom respectively.<sup>3</sup> Building on these works, the paper argues that the state interests played a central role in the development of financialisation in both instances: what has been superficially interpreted by the literature as financial liberalisation has, actually, improved these states’ capacity to act in financial markets and govern the economy more broadly. These historical insights call for a substantive change in the way PE scholars analyse the process of financialisation in the international context. As a fact, the institutional PE debate falls short of providing the analytical space for studying in what manners and why people outside the Anglo-American heartland experience financialised practices through modalities that are institutionally and discursively diverse.<sup>4</sup> Rather, current debates would benefit from a renewed focus on the innovative ways in which states react to the challenges of financialisation. To do this, this paper proposes an agency-centred perspective

<sup>1</sup> Gerald Epstein, *Financialization, rentier interests, and central bank policy*, MA manuscript, Amherst, Department of Economics, University of Massachusetts, December 2001.

<sup>2</sup> Burton G. Malkiel and Eugene F. Fama, “Efficient capital markets: A review of theory and empirical work”, *The Journal of Finance*, vol. 25, no. 2 197, pp. 383-417.

<sup>3</sup> Martijn Konings, *The Development of American Finance*, New York, Cambridge University Press, 2011; Sahil Jai Dutta, “Sovereign Debt Management and the Globalization of Finance: Recasting the City of London’s ‘Big Bang’”, *Competition and Change*, vol. 22, no. 1, 2018, pp.3-21.

<sup>4</sup> Samuel Knafo, “The Fetishizing Subject in Marx’s Capital”, *Capital & Class*, issue 76, pp. 145-175, 2002.

which studies the development of financial practices with an appreciation of the historical context.

This paper is divided into three sections. The first section deconstructs the category of financialisation as elaborated by institutionalist scholarship in Political Economy. These approaches by analysing the process of financialisation in relation to the degree of state regulation, end up supporting the notion that the turn towards financial activities inevitably undermines the state's agency. The second section will re-calibrate this assumption by presenting an overview of state actions in the financial sector in some key historical moments in American and British financialisation, showing how state interests and actions have played a major role in giving a specific rationality to financial development. Based on these insights the third section will offer a research program to the study of financialisation in both the Anglo-Saxon and the international context. This section will argue that in order to study state-market relations in contemporary societies, we need to analyse the continued way in which the imperative of financialisation is interpreted by different social actors in different contexts, rather than in relation to state deregulation/regulation as suggested by the institutionalist literature.

## The False Dichotomy of Institutional Political Economy

There has been a growing consensus that the separation between the study of politics and economics has revealed problematic when analysing the spread of financial practices worldwide.<sup>5</sup> Recently, this debate has thrust scholars in an interdisciplinary attempt to debunk the notions and categories of the traditional boundaries of the social sciences. A thriving body of literature carrying the old-fashioned label of "Political economy"<sup>67</sup> (PE), ventured in the

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<sup>5</sup> While from a purely economic perspective the era of globalisation is depicted as one of an inevitable evolutionary logic of markets and societies, on the other hand, the political science scholarship has presented consolidation of the decision-making in democratic system, from the 1980s onwards. Thomas Poguntke and Paul Webb, "The Presidentialization of Politics in Democratic Societies: Politics in Democratic Societies: A Framework for Analysis", in *The Presidentialization of Politics: A Comparative Study of Modern Democracies*, 2007, Oxford, Oxford University Press, pp. 1-25.

<sup>6</sup> For an overview about the origins and evolution of political economy, see Kees Van der Pijl, *A Survey of Global Political Economy*, Centre For Global Political Economy, University of Sussex, 2009.

<sup>7</sup> This is not to say that the variety of PE approaches can be described in such static terms. The article's understanding of PE perspective acknowledges the variegated nature of the discipline, which integrates constructivist, post-structuralist, actor-network, and neo-Gramscian approaches. Rather the focus of this paper revolves around the specific and influential strand in the PE literature that is identified as institutionalist.

intellectual process to draw upon economics and political science (along with law, history, sociology and other disciplines) in explaining the crucial role of political factors in shaping economic life.<sup>8</sup> More specifically, the institutionalist strand of Political economy,<sup>9</sup> in its international and comparative variations, - International Political Economy (IPE) and Comparative Political Economy (CPE) - has been involved in an ongoing debate over the political significances of the process of financialisation. Whilst on one hand, IPE literature brings into focus the role of financialisation in exerting a competitive pressure on the state to deregulate financial markets,<sup>10</sup> on the other, CPE<sup>11</sup> rightly underlines the political and social institutions underpinning global financial market relations.<sup>12</sup> In other words, one of CPE's central claim questions the conventional assumption concerning market universality and the convergence of all societies towards a unique model of capitalism as suggested by academics in IPE.<sup>13</sup> CPE Scholars empirically demonstrated the persistence of the institutional configurations and their relevance for the study of the internationalisation of finance. This is visible in the way in which researchers separate capitalism into two separate models: liberal and coordinated market economies (LMEs and

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<sup>8</sup> Ronen Palan, *Global Political Economy: Contemporary Theories*, London, Routledge, 2000; Matthew Watson, *Foundations of International Political Economy*, Basingstoke, Palgrave Macmillan, 2005.

<sup>9</sup> This strand is different from the American radical institutionalist tradition of Political Economy represented by authors such as Thorstein Veblen and John R. Commons.

<sup>10</sup> Stephen R. Gill and David Law, "Global Hegemony and the Structural Power of Capital", *International Studies Quarterly*, vol. 33, no. 4, 1989, pp. 475-499; Susan Strange, *States and Markets*, London, Bloomsbury Publishing, 2015; Eric Helleiner, "States and the Re-emergence of Global Finance – From Bretton Woods to the 1990s" *Global Finance*, Ithaca, Cornell University Press, 1994.

<sup>11</sup> CPE's main claim can be seen as a part of the general movement in political science whose central aim was to "bring the state back in". See Peter B. Evans et al., *Bringing the State Back In*, New York, Cambridge University Press, 1985.

<sup>12</sup> John Zysman, "American Industry in International Competition: Government Policies and Corporate Strategies", *California Management Review*, vol. 25, no. 3, 2013, pp. 27-52; Peter A. Hall and David Soskice, *Varieties of Capitalism: The Institutional Foundations of Comparative Advantage*, Oxford, Oxford University Press, 2001; Katrin Vitols, "Reforming the German Labour Market: The Case of Temporary Agency Work: A Changing Role of Temporary Agency Work in the German Employment Model?", *Competition and Change*, vol. 8, no. 4, 2004; Iain Hardie, David Howarth, Sylvia Maxfield, and Amy Verdun, "Banks and the False Dichotomy in the Comparative Political Economy of Finance", *World Politics*, vol. 65, no. 4, Cambridge University Press, 2013, pp. 691-728.

<sup>13</sup> Theda Skocpol, "Bringing the State Back in: Strategies of Analysis in Current Research", *Bringing the State Back In*, Cambridge, Cambridge University Press, 1985; Kathleen A. Thelen, "How Institutions Evolve. Insights from Comparative Historical Analysis", in James Mahoney and Dietrich Rueschemeyer (eds.), *Comparative Historical Analysis in the Social Sciences*, Cambridge, Cambridge University Press, 2003, pp. 208-240.

CMEs).<sup>14</sup> Whereas the Anglo-Saxon model (LME) is considered the typical form of capitalism in that activities are organized via competitive market dynamics, the European model (CME) is peculiar in that states traditionally have had a more central role in the economy, relying on non-market relationships in their governance.<sup>15</sup> However, the global financial crisis of 2008 has profoundly questioned the vision of the world economy advocated from CPE and reinvigorated one of the main arguments of IPE approaches: that the global dimensions of the meltdown are once more the sign of the end of institutional diversity to the global crisis-prone tendency of Anglo-Saxon capitalism.<sup>16</sup> While participants in the financialisation debate disagree over the meaning and extent of the phenomenon, they are largely united in the view that financialisation impacts negatively on state power. More specifically, although CPE and IPE have been attentive to different aspects of the process of financialisation, these approaches have come to situate themselves on two different poles of the same explanatory strategy. In their description of financialisation, both these approaches share a specific appropriation of the work of Karl Polanyi,<sup>17</sup> in which markets are described as possessing a disembedding logic and institutions are viewed as society devices to (re)embed the market and subordinate it to social and political purposes.

Still, this paper claims that swaying back and forth from a position of a triumph of financialisation to one of institutional resistance to the latter is problematic. Whilst this paper agrees on the importance of using an interdisciplinary approach to the study of financialisation, these theories have tended to reproduce a structuralism -and a division of academic labour- of their own. Crucially, this conceptual framework suffers from two problematic deficiencies in the analysis of the process of financialisation. The first stems from the suggestion that the lack of state intervention consolidated the development of financial practices. This institutionalist conception of finance is problematic when related to PE's central claim about the necessity to

<sup>14</sup> This paper acknowledges that this tradition has continuously re-elaborated this division. However, an elaborated discussion of this distinction is -whilst undoubtedly appealing- beyond the scope of this paper.

<sup>15</sup> John Zysman, "American Industry in International Competition: Government Policies and Corporate Strategies", *California Management Review*, vol. 25, no. 3, April 1983, pp. 27–52; Peter A. Hall and David Soskice, "An Introduction to Varieties of Capitalism", in *Varieties of Capitalism: The Institutional Foundations of Comparative Advantage*, Oxford, Oxford University Press, 2001; Katrin Vitols, "Reforming the German Labour Market: The Case of Temporary Agency Work: A Changing Role of Temporary Agency Work in the German Employment Model?", *Competition and Change*, vol. 8, no.4, 2004, pp. 375-389.

<sup>16</sup> Wolfgang Streeck, *How Will Capitalism End? : Essays on a Failing System*, New York, Verso Books, 2016.

<sup>17</sup> Karl Polanyi, *The Great Transformation: Economic and Political Origins of Our Time*, New York, Rinehart, 1944.

conceptualise markets and finance as a social construction. Indeed, these analyses have come to forge a strict association between speculation and liberal forms of governance, often representing speculative finance as being directly related to the degree of state regulation, or “embeddedness” of finance.<sup>18</sup> In other words, the development of speculative practices is considered a consequence of the relative absence of institutional constraints, which left financial markets free to “to develop on their own”. In this scheme, while speculation and finance represent the natural outcome of advanced and deregulated forms of capitalism, by tracing speculative finance back to the weak institutional context of these economies, researchers often suggest, even if inadvertently, that financial practices take place in somewhat of a social vacuum.<sup>19</sup> This way of framing markets is problematic in that it misses the point of constructivist approach, which would argue that economic rationality – in this case, financialisation- is socially constructed by norms, habits and discourses.<sup>20</sup> A second problem is that this theory reduces the highly variable ways in which states react to the challenges of financialisation. In particular, the attempt at framing markets’ development in terms of an a-social expansive logic is a proposition that can be maintained solely by relying on a peculiar understanding of a state agency. As a fact, even though CPE attempts to bring the institutions back into the story of financial change, it leaves behind an ambiguity over how to conceptualise the agency of the state in the reforms. State actors are presented as either *facilitating* or *resisting* deregulation and market rules, having almost no power in shaping the form in which financial markets work once established. In other words, these approaches abstract states’ actions in a-historical terms - i.e. within a regulatory framework<sup>21</sup>- and consequently deny other forms of state actions in finance.<sup>22</sup> In other words,

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<sup>18</sup> Samuel Knafo, “Liberalisation and the Political Economy of Financial Bubbles”, *Competition & Change*, vol. 13, no. 2 June 2009, pp. 128–44.

<sup>19</sup> Indeed, these approaches think about finance looking at its relation to productive investments. This conception derives from various notions that evaluate finance capital according to their ability to provide savings into productive investments of firms. The implication of this is that CPE understands contemporary processes of financial expansion solely in antithetical terms, as representing a distortion of the healthy development of productive economies. This productivist bias (which is more explicit in CPE tradition) has reinforced the idea that speculation is the logical corollary of deregulated forms of capitalism

<sup>20</sup> Peter L Berger and Thomas Luckmann, *The Social Construction of Reality: A Treatise in the Sociology of Knowledge*, Doubleday, 1967, p. 219.

<sup>21</sup> Furthermore, these kinds of analysis are too focus on high-level of state governance, failing to rightly appreciate the central role of lower-level social institutions Leonard Seabrooke, “What Do i Get? The Everyday Politics of Expectations and the Subprime Crisis”, *New Political Economy*, vol. 15, no. 1, 2010.

<sup>22</sup> Even when attempting to study the historical contingency of state’s agency, they tend to narrow the highly variable ways in which states behave towards the world. Quentin

although one of modern-day PE's central claims is that the distinction between politics and economics should not be mistaken for a material separation, these approaches have ended up reinforcing the theoretical assumption on the opposing logics of states and markets.<sup>23</sup>

## Revisiting the Anglo-Saxon Roots of Financialisation

Based on the traditional proximity between Anglo-Saxon economies and the fact that London and New York have been the last two dominant financial centres globally, the pieces of literatures above mentioned have often considered the liberal nature of these economies as the key variable behind the dynamics of speculation. They suggest that financial practices developed originally in the United Kingdom during the era of classical liberalism, to then reappear successively in the United States in the late XX century.<sup>24</sup> Between these two periods, the post-war era was marked by the rise of the regulated market and thus a victory of the interventionist state over laissez-faire finance. "Embedded liberalism"<sup>25</sup> thus restricted speculation to re-emerge – according to this Polanyian approach – during the neoliberal era following the demise of the Bretton Woods system.<sup>26</sup> It is from this perspective that IPE scholars sustain that speculative finance, once fully disembedded, spread worldwide through the process of financialisation at the expenses of state agencies.<sup>27</sup> This story has been opportunely constructed to reinforce the association of speculation to liberalisation. Yet, this apparently straightforward conjunction hides a more complex reality which contradicts some of these key assumptions in the literature. More specifically, this linear strategy of explanation makes it difficult to historicize financial practices and masks some significant specificities within

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Skinner, *Visions of Politics. Volume 1, Regarding Method*, Cambridge, Cambridge University Press, 2002.

<sup>23</sup> David Coates, "Paradigms of Explanation", in *Varieties of Capitalism, Varieties of Approaches*, Springer, 2005, pp. 1-25. As Hancké states: "[...]convergence and divergence are concepts that simply do not offer a very useful framework for understanding economic activity in advanced capitalist economies [...] actors engage in pragmatic experimentation, trying out different solutions within the broad institutional and normative paradigm that they found themselves." Bob Hancké, *Debating Varieties of Capitalism: A Reader*, Oxford, Oxford University Press, 2009, p. 7.

<sup>24</sup> Charles P. Kindleberger, *The World in Depression, 1929-1939*, Berkeley and Los Angeles, University of California Press, 1973.

<sup>25</sup> John Gerard Ruggie, "International Regimes, Transactions, and Change: Embedded Liberalism in the Postwar Economic Order", *International Organization*, vol. 36, no. 2, 1982, pp. 379-415.

<sup>26</sup> Eric Helleiner, "States and the Reemergence of Global Finance – From Bretton Woods to the 1990s", *Global Finance*, 1987.

<sup>27</sup> Susan Strange, *States and Markets*, London, Bloomsbury Publishing, 1988.



the process of financialisation. Various historical evidences show instead that the financial histories of the U.S. and the U.K. differ also according to the ways in which states acted in finance. These qualitatively different trajectories can hardly be clarified through the theoretical lens offered by the perspectives mentioned above.

It is thus in order to remedy this bias and in line with a developing number of scholarships that this article traces the origin of speculative practices in their particular social contexts, showing how crucial these are for our understanding of financialisation. A first step towards this is to problematize the English-American model proposing that modern financial practices -such as liability management- have their roots in the United States and then spread to the United Kingdom. This brief examination will be advanced to argue that the exceptional development of speculative practices in the Anglo-Saxon heartland did not originate from the so-called “liberal” nature of national governance, but rather that the rationality of finance has been profoundly shaped by the interest and actions of the states in question. To do this, it is important to bring to the fore two crucial but often neglected aspects of modern finance. Financial practices are frequently studied as an inherent tendency of financial actors when left outside supervision, so much that scholars have treated speculation throughout history as having the same logic over time. However, many authors have instead pointed out how much financial practices have changed over time, and how a distinction between pre- modern and modern forms of finance can be established and can roughly correspond to the English and American models.<sup>28</sup> Pre-modern forms of speculation and finance consisted essentially in various types of arbitrage as speculators sought to exploit price differentials among various markets. The second and more modern form of speculation revolves on a different logic. Its most recognisable form is financial securitisation<sup>29</sup> – the process of transforming illiquid assets such as bank loans into securities that can be traded on financial markets. In other words, while pre-modern financial practices were present since the 15<sup>th</sup> century from Italy to the British context, the developments which occurred in the U.S. in the 20<sup>th</sup> century were radically different.<sup>30</sup> Indeed, many authors argue that the post-WWII wave of financial globalisation is qualitatively different from the relatively contained dynamics of financial globalisation under British hegemony<sup>31</sup> and, moreover, whilst the U.K.

<sup>28</sup> Samuel Knafo, “Liberalisation and the Political Economy of Financial Bubbles”, *Competition & Change*, vol. 13, no. 2, June 2009, pp. 128–44.

<sup>29</sup> For a review on this technology see Leon. T. Kendall and Michael J. Fishman (eds.), *A primer on securitization*, Cambridge, The MIT Press, 2000.

<sup>30</sup> The most defining feature of US finance has been the practice of securitisation which helped financial actors to pass on their liabilities in order to generate new resources for further transactions and has helped to dramatically expand the money supply.

<sup>31</sup> The capacity of British-style finance to penetrate other Western national social formations had been highly limited and the stability it provided was perfectly compatible with a range

was still restructuring its post-WWII economic schemes, the expansion of American finance was by that time gathering pace.<sup>32</sup> This historically-grounded distinctions are useful for formulating and detecting the specific and peculiar socially constructed nature of American Finance and its successive spread to the United Kingdom.

### *The American roots of financialisation*

This section will analyse the social construction of American speculation, showing how the state contributed to the construction of financial practices. This means considering, for example, that the Wall street crisis of 1929 was not the mere reflection of the free-market era, but it was crucially triggered by the institutionalisation of the Federal Reserve central banking. Following Konings,<sup>33</sup> the nineteenth-century agrarian context of the American economy suffered from a chronic lack of liquid assets, leading commercial banks to pioneer a distinctive form of “financial banking”. Banks and other financial institutions were mainly concerned with gaining access to funds, becoming specialised at using other channels, such as going directly on the market to find funds rather than depend on deposits as it was the case in Europe. The development of *securitization* practices had the effect of triggering recurrent crises brought on by the sudden evaporation of market liquidity. While the foundation of the Federal Reserve system in 1913<sup>34</sup> was a governmental response to this, the presence of a lender of last resort served to *fuel* rather than *discourage* the unstable growth of new forms of credit, consequently leading to the Great Crash in 1929. In that period, through various marketing schemes and new financial instruments financial firms *extended* the use of finance by including a growing amount of people on the stock market. Moreover, contrary to conventional wisdom, the New Deal<sup>35</sup> response to the depression did not

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of distinctive national development trajectories. Geoffrey Ingham, *Concepts of money*, Edward Elgar Publishing, 2005; Giovanni Arrighi and Beverly J. Silver, *Chaos and Governance in the Modern World System*, Minneapolis, MN, University of Minnesota Press, 1999.

<sup>32</sup> Rob Aitken, *Performing Capital: Toward a Cultural Economy of Popular and Global Finance*, Basingstoke, Palgrave Macmillan, 2007.

<sup>33</sup> Martijn Konings, *The Development of American Finance*, New York, Cambridge University Press, 2011.

<sup>34</sup> Rik W. Hafer, *The Federal Reserve System: An Encyclopedia*, Westport, Connecticut, Greenwood Press, 2005.

<sup>35</sup> The reforms of the New Deal were a contradictory process, while posing restrictions on capital mobility it further integrated American population into the financial system. The restriction of liquidity creation with the Glass-Steagall act should not be taken as representative of policies in this period. Rob Aitken, *Performing Capital: Toward a*

restrain but promote the integration of the American middle and working classes into the financial system.<sup>36</sup> Following Konings:

“In an important sense, private credit in America was the functional equivalent of public programs in Europe. After WWII, the American working classes would become ever more fully integrated into the financial system, as lenders and savers but also as borrowers and consumers.”<sup>37</sup>

The post-war era later witnessed remarkable innovations in speculative practices related to the demand for credit generated by the Fordist consumption. As a fact, by the late 1950s, American commercial banks introduced - through the development of negotiable certificates of deposit - new forms of securitization, further enhancing their capacity to create liquidity. This suggests that IPE's concept of “embedded liberalism” offers little conceptual grasp on the analysis of financial change in the post-war era.<sup>38</sup> Indeed, even when, during the 1960s, the Federal Reserve sought to regulate these innovations, American commercial banks turned to the foreign Eurodollar markets,<sup>39</sup> beginning to apply the new financial techniques in this offshore space, setting the backdrop for further international financial developments. The inflationary consequences of banks' operations in the Eurodollar market set the context in which the shift to monetarism and neoliberalism is reinterpreted. Whereas IPE interprets the political turn to neoliberalism as a series of policies through which the American state actions pursued the interest of international finance, it was

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*Cultural Economy of Popular and Global Finance*, Basingstoke, Palgrave Macmillan, 2009.

<sup>36</sup> This was visible in U.S. Securities and Exchange Commission's will to further banks securitisation. Conceptualising state agency as opposed to a “unitary vision of the state” lead us to conceptualise this process as a contradictory one. Jack Copley. “Financial Deregulation and the Role of Statecraft: Lessons from Britain's 1971 Competition and Credit Control Measures”, *New Political Economy*, vol. 22, no. 6 2017, pp. 692-708. As a fact the Glass-Steagall act regulatory constraints meant that disintermediation posed important challenges to investment banks. However, these constraints were circumvented by commercial banks' agency in the 1950s with the development of the certificate of deposits.

<sup>37</sup> Martijn Konings, “European Finance in the American Mirror: Financial Change and the Reconfiguration of Competitiveness,” *Contemporary Politics*, vol. 14, no. 3, 2008, pp. 253-275.

<sup>38</sup> Hannes Lacher, “The Politics of the Market: Re-Reading Karl Polanyi”, *Global Society*, vol. 13, no. 3, 1999, pp. 313-326.

<sup>39</sup> Dollars that because of the dollar overhang were now owned by foreign investments, primarily in the market of London. More specifically, Eurodollars are U.S. dollar denominated deposits held at banks outside of the United States. See Stefano Battilossi, “International Banking and the American Challenge in Historical Perspective”, in Stefano Battilossi and Youssef Cassis, *European Banks and the American Challenge: Competition and Cooperation in International Banking under Bretton Woods*, Oxford, Oxford University Press, 2002, p. 19.

rather the implementation of regulations to limit speculative finance which prompted innovation on the fronts of financial securitisation and the creation of liquidity.<sup>40</sup> Drawing on Konings' account,<sup>41</sup> the state unwittingly triggered further financial innovation<sup>42</sup> through the high-interest rates established during the Volcker Shock in 1979.<sup>43</sup> Even though the monetarist doctrine was implementing high-interest rates in order to contain money creation, financial credit began to expand again at a faster rate following the shock. Initially Volcker's high-interest rate triggered immediate and drastic drops in investment into the manufacturing economy, yet Federal Reserve regulations did not stop financial innovation in the banking sector. Quite contrarily, banks were able to create further credit, leading total American debt in 1984 to be twice as high as in 1977. By redirecting inflation from market price to financial assets, the FED's shock dissipated U.S. state's worries over the dramatic consequence of inflation, whilst simultaneously spurring financial innovation. Thus, the turn to neoliberalism did not subject public purpose and power to the external discipline of disembedded global markets, rather its consequences (the redirection of inflation from prices to assets) were considered congenial to the objectives of both U.S. state and financial capital. This resulted in the development of a new paradigm of policies – "neoliberal governance"- based on the management of speculation and financial practices.<sup>44</sup> This brief historical section has introduced our conceptualisation of the process of the globalisation of finance. Indeed, the story of financial globalisation often focuses too much on the demise of the institutions of Bretton Woods as a moment in which the forces of financial globalisation are fully liberated and unleashed. However, the growth of financial practices globally cannot be studied as the natural consequence of the demise of a monetary system's institutional framework, in that financial globalisation involves multiple and linked processes of innovation, growing market complexity and the penetration of financial

<sup>40</sup> Leo Panitch and Martijn Konings, "Myths of Neoliberal Deregulation", *New Left Review*, 2009.

<sup>41</sup> Martijn Konings, *The Development of American Finance*, New York, Cambridge University Press, 2011.

<sup>42</sup> The liberalization of the securities industry and the creation of a market for corporate control further multiplied the products and services that banks could offer. Lena Rethel and Timothy J. Sinclair, *The Problem with Banks*, London, Zed Books, 2012; Allen Kaufman and Ernest J. Englander, "Kohlberg Kravis Roberts & Co. and the restructuring of American capitalism", *Business History Review*, vol. 67, no. 1, 1993, pp. 52-97.

<sup>43</sup> Giovanni Arrighi, *The Long Twentieth Century: Money, Power, and the Origins of Our Times*, London, Verso, 1994.

<sup>44</sup> The period following the monetarist shock saw the rise of a new regime of governance - Neoliberalism- based on a new degree of congruence between the regulatory aims of the American state and financial interests. In Konings' words this "set the basis for a market-oriented modality of regulation" Konings, "European Finance in the American Mirror: Financial Change and the Reconfiguration of Competitiveness", 2008, p. 260.

relations into diverse social spheres. This section has highlighted how modern financial practices - i.e. securitisation – had their roots in the American context and how this has important consequences for how we study the process of financialisation. In order to conceptualise the growth of modern financial practices outside the American context, the next section will analyse their spread to the British context.

### *Financialisation in the United Kingdom*

A reflection of this sort means that the U.K. financial system will perhaps not best be understood as an equal constituent in the category of the Anglo-American model. To do this, this section will reconsider the internationalisation of securitisation practices by looking at the *Big Bang*. The *Big Bang* of 1986 marks, conventionally, the beginning of a series of deregulations which are said to have stimulated the development of global finance in the U.K. While the Institutional literature argues that the state played an active role in constructing the reforms, it remains unclear the state's direct interest in pursuing financial market liberalisation. Yet, British state interests were a crucial part of what is otherwise generalised as part of neoliberal deregulatory policies. Indeed, the liberalization of the City of London's market was motivated more by state authorities' concern with the management of sovereign debt than with liberalising markets. As Sahil Dutta (2018) demonstrates, whereas the Fed's regulations in the 1960s led American banks to go abroad and apply their new financial techniques in Euromarkets,<sup>4546</sup> this did not mean that U.S. intermediaries could easily find new markets as easily as they wished or assumed. At that time, debt management was a significant concern for Britain's monetary authorities because of the Bank of England's indebtedness related to the two world wars and the Keynesian period that followed. Previously to the *Big Bang*, The London Stock Exchange was the principal loci where the state secured credit provision. However, in the 1970s, policymakers showed dissatisfaction with the inefficiency of the small and lightly-capitalised

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<sup>45</sup> Richard Roberts, "The London Financial Services Cluster since the 1970s: Expansion, Development and Internationalization", *Paris Congress, Paris School of Economics*, 2008, pp. 10-11.

<sup>46</sup> London's insertion into international networks was equally important as an incentive for American banks to set up branches in the U.K. during the 1960s, when they followed American corporations. "International Banking and the American Challenge in Historical Perspective. European Banks and the American Challenge: Competition and Cooperation in International Banking under Bretton Woods", 2002; Eric Helleiner, *States and the Reemergence of Global Finance – From Bretton Woods to the 1990s.*, Ithaca, NY, Cornell University Press, 1994.

firms to underwrite the state's debt issues. This, in turn, led the Bank of England to actively absorb its own issues, creating excessive liquidity in the financial system. This had the unintended consequence of resulting in a conflict between the aim of monetary policies – which was at the time concerned about restricting credit creation- and the actual practices of debt management – which, on the other hand, did the opposite. Significantly, by changing the rules on membership and trading in the London Stock Exchange, the *Big Bang* worked to greatly expand the size and liquidity of the market for British sovereign debt. By opening membership up, it brought highly-capitalised, international financial houses to the Exchange:

“At a time when the national debt, which had long been a permanent part of British capitalism, was growing and inflation and unemployment was still high, this was a crucial change. It gave the state greater capacity to raise finance more easily and, in doing so, allowed it to pursue monetary policy in a way that was impossible before. By deepening the market for government debt securities, the Bank no longer had to intervene directly in the gilt market.”<sup>47</sup>

Whilst on a more systemic level the *Big Bang* represents the first step towards the generalisation of U.S. financial practices internationally<sup>48</sup> - as reflected in the use of dollar securities in the UK market -it is misleading to assume that the agency of the British state in this process can be interpreted as merely passive. By recasting the Big Bang in terms of the management of sovereign debt, the work of Sahil Dutta offers a way to bring the state's interest into the centre of the financialisation account, in that the long-term impact of Big Bang reforms was to expand the capacity of the British state to manage its debt. In other words, the adoption of U.S. financial practices revealed to be beneficial to the British state's capacity to increase its financial liquidity in an unprecedented manner.

To sum up, the section has attempted to show how the complex and intertwined history of finance can hardly be understood through the lens of *states vs markets*. By limiting the investigation of states' activity to an inquiry of its regulatory apparatus, scholars end up neglecting the way in which financialisation practices are profoundly shaped by state interests and actions and, as a corollary, of how socially constructed finance is. The history presented

<sup>47</sup> Sahil Jai Dutta, “Sovereign debt management and the globalization of finance: Recasting the City of London's ‘Big Bang’”, *Competition & Change*, vol. 22, no. 1, 2018, pp. 3-22.

<sup>48</sup> This not only meant that British banks and brokers could now fully participate in the financial networks built around the Eurodollar markets, but also opened the doors to the fuller infiltration of Britain's domestic financial system by American banks. Philip Augar, *The death of gentlemanly capitalism: the controversial bestseller on the City's big sell-out*, London, Penguin Books, 2001. Indeed, this process consolidated the role of the dollar worldwide, with securitisation being an advantage for US banks, feeding US speculative markets.

problematizes institutionalist PE assumptions in three aspects. Firstly, and of main importance for this article, it counters those approaches which deny the contribution that state governance can give to financial speculation. This brief review has emphasized how, counterintuitively, it was the very adoption of regulations to limit concentration and speculation which would prompt innovations on the fronts of financial securitisation and the creation of liquidity. Secondly, by emphasising how Neoliberalism – in both cases – builds a novel form of governance based on the management of financial markets, this review questions the idea that public purpose and interest is necessarily subjected to the external discipline of disembedded global markets. The third point emphasizes that in key respects the development of financial practices in the Anglo-American core rests on a formalised set of institutions, rather than what is usually assumed. The leverage that financial institutions built by involving an ever-growing population in financial markets was possible solely thanks to the popularisation of high finance to a larger part of society, in which the reforms of New Deal, and the action of the Federal Reserve and the Bank of England played a crucial role.

### Towards the Study of Financial Globalisation: an Agency-Centred Approach

In recent years, scholars of Political Economy literature, encouraged by the subprime crisis and its differential impact throughout the globe, have begun to map how financialisation affects societies and areas outside the U.S. and the U.K.<sup>49</sup> However, the evidence that the previous section has brought by showing how American and British finance are very politicised, calls for a substantive recalibration of IPE understanding of the process of financialisation. Indeed, this literature has entrained a specific understanding of financial practices which are thought of as endowed of a proper autonomous logic which flattens institutional diversity worldwide. This literature has used a specific methodology in the analysis of financialisation in the international context. Scholars tend to analyse financial globalisation in terms of a convergence-divergence process towards the practices present in the Anglo-Saxon model, considered the most advanced form of capitalism. Whilst the use of speculative

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<sup>49</sup> Ewald Engelen and Martijn Konings, “Financial Capitalism Resurgent: Comparative Institutionalism and the Challenges of Financialization”, in Glenn Morgan, John L. Campbell, Colin Crouch, Ove Kaj Pedersen, and Richard Whitley (eds.), *The Oxford Handbook of Comparative Institutional Analysis*, Oxford, Oxford University Press, 2010, pp. 601-624; Mareike Beck and Julian Germann, “Managerial Power in the German Model: The Case of Bertelsmann and the Antecedents of Neoliberalism”, *Globalizations*, vol.13, no.3, 2018, pp. 1–14.

practices is seen as the *natural* tendency within liberal frames of governance, the previous section has intended to show how, instead financialisation is a *social construction*, with its roots in the American context. The consolidation of American finance required a vast set of institutional features in which the actions and interests of the state played a crucial role. This directly speaks to the inadequacy of conceptualising financial globalisation by studying the degree of liberalization of a country and in terms of a contamination from the Anglo-Saxon core. In other words, mapping this process internationally in terms of *state vs markets* has reduced the highly variable ways in which people outside the Anglo-American heartland experience financialised practices through modalities that are institutionally and discursively diverse. Whilst the story of financial globalisation often focuses too much on the demise of the institutions of Bretton Woods in the unleashing of the forces of financial globalisation, this article has proposed an agency-centred approach which thinks financial practices as strictly related to their contingent and peculiar context. Financialisation in international contexts cannot be conceptualised as simply reflecting a degree of subordination to Anglo-American finance and its crisis-prone practices, and neither according to its ‘market’ orientation. I argue that understanding financialisation as a historical process means coupling the theorisation of the latter with an appreciation of how agential power is essential in promoting social change. This means reconsidering power from the perspective of agents to appreciate how our social reality does not entail an agent-structure dichotomy, but an interaction between agents which is intermediated by incessantly renegotiated institutions and discourses.<sup>50</sup> More specifically, IPE and CPE both rely on a structuralist conception of financialisation which adopts the concept of *pressure* as inherent to the power that finance exerts on societies. However, from a methodological standpoint, this article argues that this conception does not allow for a dynamic understanding of historical change. To address the issue of financialisation the article puts forward the idea that what is usually assumed to be a monolithic pressure, should be reinterpreted into the more flexible definition of *imperative*. These imperatives are methodologically important as they allow to cast a spotlight on the social opportunities and problems created by agents for other social agents. Whilst methods which function on the notion of limit contextualises social change in a non-specific, a-historical fashion, the notion of imperative gives us a blank canvas which forces us to focus on history rather than a static model to understand social struggles and capitalistic development. This is valuable as it recognises how social constraints develop in a more dynamic way than structural methodologies can account for, without

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<sup>50</sup> The terms “institution” and “discourse” are used together to denote the intertwined material and ideal nature of human practices.



downplaying the influence that these social agents have on a wider process of social change.<sup>51</sup> In this historically sensitive scenario, financialisation – far from being a reified system – finally appears as a continuously differentiated ensemble of institutional and discursive architectures in the making.<sup>52</sup> This way of framing financialisation has deep implications for how to think the relationship between states and markets and the process of financialisation. In this context, markets are analysed not as a disembedding logic over society, rather the organisation and institutionalisation of *market* activity are thought of as a social construction that can provide a key infrastructure for state intervention. This essentially means debunking the IPE/CPE conception of *state agency*, which should not be analysed through a predefined set of actions -i.e. regulatory actions- but through a historically minded method.<sup>53</sup> This means studying states and markets each time in specific terms, looking at the dynamics generated by agents when they manipulate these living institutions and discourses in search for a leverage to exert power over others. As this thesis claims, the agency-centred approach provides the historically sensitive scenario through which to appreciate how and why state's agents worldwide – through their conflicts as well as their institutional and discursive manipulation – produce different traits of financialisation across social spaces.

## Conclusion

This paper has offered a brief aperçu for the study of financialisation in the Anglo-Saxon and international contexts. The article has argued that the association of liberal forms of governance to speculation has formed an a-social framework for studying speculation practices within financialisation. Short of a proper conception of the social fundamentals of such practices, the process of

<sup>51</sup> Martijn Konings, "Political institutions and economic imperatives: bringing agency back in", *Research in Political Economy*, vol. 22, 2005, pp. 85-130.

<sup>52</sup> These institutions and discourses reflect the agential power of certain social forces who advance them to make sense of the surrounding reality and to leverage their own position vis-à-vis other forces. It is important to note that the agential process of constructing institutional and discursive structures does not lead to the consolidation of an objectified reality. On the contrary, it allows people to use those structures for their own strategic purposes. In other words, whilst neoliberal reformists in Anglo-Saxon countries surely exerted power by building market-oriented institutions and discourses, other agents lived such constraints in their own terms – eventually transforming the very same restrictive rules they were initially subjected to. Samuel Knafo, "Critical Approaches and the Legacy of the Agent/Structure Debate in International Relations," *Cambridge Review of International Affairs*, vol. 23, no. 3, 2010, pp. 493-516.

<sup>53</sup> Quentin Skinner, *Visions of Politics. Volume I ... cit.*; George C. Comninel, "Critical Thinking and Class Analysis: Historical Materialism and Social Theory", *Socialism and Democracy*, vol. 27, no. 1, March 2013, pp. 19–56.

financial change too often appears as the natural tendency of capitalism when left outside state supervision. The central claim of this paper - i.e. to take seriously the argument that financialization should be treated a social-historical category - reminds us that from a methodological standpoint, we should be careful to depict the process of financialisation as implying a dismissal of states' interests in place of markets' one. By drawing on recent literature, this paper has argued that the development of financialisation requires the formalisation of an institutional setup in order to be viable. More specifically, in the construction of the practices of financialisation, the actions and interests of the respective states have played a crucial role. The example of the American and the British instauration of financialisation show how global financial markets also present opportunities for states to shape and improve the terms by which states obtain finance. From these evidences, this paper puts forth an approach for the study of financialisation in diverse contexts based on the methodological use of historical research. The institutional Political economy debate falls short of capturing historically the political meanings of the process of financialisation. This agency-centred perspective serves to renew current debates which may benefit from a focus on the innovative ways in which states react to the challenges of financialisation. The broader argument and evidence presented in this article has put forward a methodological tool through which PE scholars may examine how state agencies shape financial markets, and that what may appear as financial liberalisation, can also shape and enhance the state capacities to act in financial markets and govern the economy more broadly. More specifically, the historical evidence brought by these accounts advocates scholars to analyse the financialisation process by analysing the mechanism of raising and managing budget policies and sovereign debt. Aside from offering a different perspective on financial globalisation this contribution also speaks to the growing interest in financial statecraft and the impact of sovereign debt in the contemporary global political economy.